

**LEGISLATIVE SERVICES AGENCY**  
**OFFICE OF FISCAL AND MANAGEMENT ANALYSIS**  
301 State House  
(317) 232-9855

**FISCAL IMPACT STATEMENT**

**LS 6213**

**BILL NUMBER:** HB 1029

**DATE PREPARED:** Jan 26, 1999

**BILL AMENDED:**

**SUBJECT:** Tax exemption for scholarship income.

**FISCAL ANALYST:** Diane Powers

**PHONE NUMBER:** 232-9853

**FUNDS AFFECTED:** X

**GENERAL  
DEDICATED  
FEDERAL**

**IMPACT:** State & Local

**Summary of Legislation:** This bill allows an individual taxpayer to subtract that portion of the individual's federal gross income received as a scholarship and used to pay for room and board on campus at a qualified educational organization located in Indiana in the calculation of the individual's Indiana adjusted gross income. (Current federal law excludes scholarship money used to pay for tuition, books, and fees from federal gross income and, therefore, federal adjusted gross income and Indiana adjusted gross income.)

**Effective Date:** January 1, 2000.

**Explanation of State Expenditures:** The Department of Revenue will have some administrative expenses associated with changing tax forms, instructions and computer programs to accommodate this new exemption.

**Explanation of State Revenues:** This bill provides an income tax exemption for taxpayers who have received scholarship money which covers room and board expenses at an Indiana educational organization. Currently this part of scholarship funds are included as income in determining a taxpayer's federal adjusted gross income. Only scholarship money used to pay for tuition, books, and fees are excluded from federal adjusted gross income.

This exemption will reduce individual income tax revenue by a minimal amount. According to the Commission on Higher Education, average room and board expenses are \$4,500. For each Indiana resident student, who attends an Indiana educational institution and receives scholarship funds to cover all or part of room and board expenses, the reduction in individual income tax would be \$153. The value of the exemption is dependent on the amount of the scholarship attributable to these expenses.

The Commission does not have any information on the number of Indiana students who have received scholarships at Indiana universities which would cover room and board expenses. If there are 500 Indiana resident students receiving approximately \$4,500 each in scholarship funds designated for room and board expenses, there would be an annual revenue loss of \$76,500 in individual income tax revenue. If there were 1,000 students, there would be an annual loss of \$153,000. Any revenue loss which might result from this exemption may be mitigated if some college students are not currently filing federal or state tax returns.

This exemption is effective for tax years beginning January 1, 2000 and would affect revenue collections in FY 2001 and years after. Individual income tax revenue is deposited in the General Fund.

**Explanation of Local Expenditures:**

**Explanation of Local Revenues:** Counties with a local option income tax will lose a minimal amount of local option income tax revenue due to this new exemption.

**State Agencies Affected:** Department of Revenue.

**Local Agencies Affected:** Counties with a local option income tax.

**Information Sources:** Commission on Higher Education.